



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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CIVIL DIVISION

JUL 12 1971

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Dear Mr. Secretary:

We have reviewed Gallaudet College's administrative procedures and internal controls relating to expenditures of federally appropriated funds, including funds appropriated for financing the construction and operation of the Model Secondary School for the Deaf. Our review, which was directed principally toward settlement of the accounts of certifying officers, included tests of selected payroll and leave transactions.

Our review showed that the college's controls over expenditures of federally appropriated funds were generally satisfactory. We have noted certain matters, however, which we believe warrant your attention.

UNAUTHORIZED OBLIGATIONS OF FUNDS

Gallaudet College recorded obligations of about \$180,000 against the fiscal year 1969 appropriation, which should have been charged against the fiscal year 1970 appropriation, for salaries and expenses of the Model Secondary School for the Deaf. These obligations, together with the other obligations incurred during fiscal year 1970, exceed the amount appropriated by the Congress for that fiscal year.

In October 1966, the Congress authorized the Secretary of Health, Education, and Welfare to enter into an agreement with Gallaudet College to establish and operate the Model Secondary School for the Deaf (80 Stat. 1027). This agreement was signed on May 16, 1969.

Following is a summary of the amounts appropriated by the Congress through fiscal year 1970 for salaries and expenses of the Model Secondary School for the Deaf.

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<u>Appropriation act</u>	<u>Amount</u>	<u>Availability</u>
Public Law 90-132, approved Nov. 8, 1967	\$425,000	Until expended
Public Law 90-557, approved Oct. 11, 1968	400,000	Fiscal year 1969
Public Law 91-204, approved Mar. 5, 1970	415,000	Fiscal year 1970

During May and June 1969, \$230,000 of the \$400,000 appropriated for fiscal year 1969 was apportioned to the college. The college obligated the entire amount apportioned, and the balance of the appropriation--\$170,000--lapsed at June 30, 1969.

Section 712(a) of Title 31, United States Code, provides that appropriations made specifically for the service of any fiscal year be applied only to the payment of expenses properly incurred during that year. The Comptroller General has ruled that, to obligate against a current fiscal year appropriation for payments to be made in a succeeding year, the contract representing the obligation must be made during the current fiscal year to meet a bona fide need of the fiscal year to be charged (35 Comp. Gen. 319).

The documents prepared by the college as support for the obligations against the fiscal year 1969 appropriation for salaries and expenses of the Model Secondary School for the Deaf showed that about \$180,000 was for fiscal year 1970 salaries, expected travel expenses, rental of equipment, and contracts for certain educational projects. Therefore the charges to the fiscal year 1969 appropriation were not authorized.

An official of the Department of Health, Education, and Welfare (HEW) informed us that the college had obligated the entire amount appropriated for salaries and expenses of the Model Secondary School for the Deaf for fiscal year 1970. Thus, when the unauthorized obligations against the school's fiscal year 1969 appropriation are deobligated and recorded as obligations against the fiscal year 1970 appropriation, the fiscal year 1970 appropriation will be overobligated.

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We discussed this matter with HEW officials, and, in a letter to us dated May 10, 1971, the Deputy Assistant Secretary, Budget, agreed that the obligations against the fiscal year 1969 appropriation should have been against the appropriation for fiscal year 1970. He said that his office had been working with the college and that he believed that measures had been taken which would be sufficient to prevent a similar situation from developing in the future. He said also that, of the questioned amount, \$50,000 was still unexpended and could be deobligated and that, because he considered the remaining amount to be relatively small, no further action seemed to be necessary.

An official of the Office of the Deputy Assistant Secretary advised us that the unexpended funds of \$50,000 were related to contracts for educational projects awarded in fiscal year 1970. She said that work on these projects had been delayed and that, when the work started, current funds could be used to finance it.

### CONCLUSIONS

Unliquidated obligations against the fiscal year 1969 appropriation, which do not represent actual liabilities, should be deobligated. With regard to the remaining obligations of about \$130,000 which are not properly chargeable to the fiscal year 1969 appropriation, the General Accounting Office has no authority to concur that no further action be taken. Therefore HEW should inform the House and Senate Committees on Appropriations of these unauthorized obligations and of the corrective action needed.

### NEED FOR INCREASED AUDIT AGENCY ATTENTION TO FINANCIAL MANAGEMENT CONTROLS OF SPECIAL INSTITUTIONS

On the basis of our findings at Gallaudet College and certain supplementary information furnished to us by officials of the HEW Audit Agency, we believe that the Audit Agency needs to give increased attention to the adequacy and effectiveness

of the financial management controls of the five special institutions for which HEW has budget and audit responsibilities. These special institutions are Gallaudet College, Howard University, and the Model Secondary School for the Deaf in Washington, D.C.; American Printing House for the Blind in Louisville, Kentucky; and National Technical Institute for the Deaf in Rochester, New York.

Officials of the HEW Audit Agency informed us that, although the Agency's plans generally provided for reviewing at 4-year intervals the financial management controls over expenditures of Federal funds by the special institutions--the same frequency provided for scheduling reviews at HEW installations--such reviews were not always made at the planned frequency, because the available manpower was needed for other audit work of greater significance.

According to Audit Agency officials, the dates of the last Audit Agency review and of the next scheduled review of each of the special institutions are as follows:

<u>Institution</u>	<u>Fiscal year in which last audited</u>	<u>Fiscal year in which next audit planned (note a)</u>
American Printing House for the Blind	1961	1972
Gallaudet College	1966	1973
Howard University	1969	-
Model Secondary School for the Deaf	-	1973
National Technical Institute for the Deaf	-	1972

<sup>a</sup>The Audit Agency has not scheduled the reviews to be made in periods beyond fiscal year 1973.

The Audit Agency's report on its 1966 review at Gallaudet College disclosed that the internal controls over timekeeping

and payroll operations were inadequate. Although the report contained recommendations for improvements in these areas, the Audit Agency apparently did not make a follow-up review to determine whether these recommendations had been implemented properly by the college.

College officials informed us that, during fiscal years 1968 and 1969, about 640 U.S. Treasury checks in amounts totaling about \$132,000 had been issued illegally in the names of fictitious or former employees of the college and that the former chief accountant of the college subsequently had been tried and convicted of arranging for the issuance and negotiation of certain of these checks. As of March 23, 1971, the college had recovered about \$68,400 of the \$132,000 from its bonding agent and from the Internal Revenue Service for taxes improperly withheld and the U.S. Secret Service was attempting to collect additional funds from the financial institutions which had cashed improperly endorsed checks.

The officials informed us also that the chief accountant had been responsible for preparing the payrolls, receiving and distributing the payroll checks, and maintaining the records relating to payroll expenditures. It appeared to us that, to prevent such diversions of funds in the future, the college's payroll system should provide for segregating the different payroll functions among several employees.

We discussed this matter with Audit Agency officials who stated that in 1969, after learning of the fund diversions, the Audit Agency had made an unscheduled review at the college for the purpose of assisting in the development and installation of a control plan which would provide for a proper segregation of payroll functions. They said that the Audit Agency had developed and submitted informally the control plan to the college but that a formal report on the review had not been issued.

College officials informed us that the college had used the control plan developed by the Audit Agency for only a short time before replacing it with one developed by a

public accounting firm. We reviewed the operations under the new system and found the internal controls to be generally satisfactory. Under the new system each of the functions of authorizing, processing, distributing, and recording salary payments is performed by a different employee. Also payrolls are reconciled with independently prepared control totals and are approved by supervisory personnel prior to preparation of checks.

### CONCLUSIONS

The Audit Agency's plan for scheduling reviews of the management controls of the college and other special institutions at the same frequency planned for scheduling reviews at HEW installations needs some modification. We believe that the Audit Agency should give greater attention to the adequacy and effectiveness of the financial management controls of the special institutions than to the HEW installations, because these institutions do not receive continuing departmental oversight and guidance to the same extent as the HEW installations.

Audit Agency officials agreed that there probably was a need to give increased audit attention to the special institutions. They pointed out, however, that the special institutions' expenditures of Federal funds were a relatively small portion of the total Federal expenditures for which HEW has audit responsibility. They also said that it was the established policy of the Audit Agency to give priority to program-type reviews covering large expenditures of Federal funds rather than to administrative-type reviews.

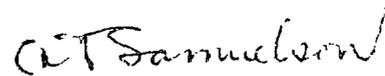
Although we perceive of no objection to the Audit Agency's system of priorities, we believe that greater attention should be given to the financial management controls of the five special institutions. In our opinion, the Audit Agency should make reviews of the expenditure of Federal funds by each of these institutions at sufficiently frequent intervals to be able to ensure that institution personnel are aware of

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all applicable regulations and procedures and that prompt action is taken to eliminate any weaknesses in the internal controls of the institutions.

Copies of this report are being sent to the Senate and House Committees on Appropriations and, pursuant to its standing request, to the Intergovernmental Relations Subcommittee of the House Committee on Government Operations. A copy is also being sent to the Assistant Secretary, Comptroller, HEW. In view of the nature of the contents of this report, you may wish to furnish a copy to the President of Gallaudet College.

Sincerely yours,



Director, Civil Division

The Honorable  
The Secretary of Health,  
Education, and Welfare